WORLD BANK NEWS

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PUBLICATIONS

Bank Urges More Focus on Quality and Service for Infrastructure Investment and Reform

The following story is embargoed for publication and broadcast until 4 p.m. EDT (2000 GMT) Sunday, June 19, 1994.

Infrastructure forms the sinews of development. Efficient and adequate transport, electric power, telecommunications, water supply, sanitation and waste disposal underpin a competitive economy, create a habitable environment, improve peoples' health, and reduce poverty. Better infrastructure means a better life for the world's poor. They spend less time fetching water, or taking crops to market, or travelling to work.

For many years governments were the main providers of infrastructure and the emphasis was on the quantity supplied. But, concludes the *World Development Report 1994*, the central issue today is improving the quality and reliability of services rather than just increasing the quantity of infrastructure. In many cases, that may involve more private sector supply of services. It definitely involves more participation by consumers.

Introducing the WDR, which is produced and published annually by the World Bank, the Bank's president, Lewis T. Preston, said: "Service must now be the goal and measure of infrastructure. Too many investments have generated neither the quantity nor the quality of services needed. Basic issues such as efficiency, maintenance, and cost recovery have too often been neglected."

He added: "The emphasis everywhere must be less on cutting ribbons to open new facilities – and more on ensuring that those facilities deliver the intended services."

Developing countries invest about $200 billion a year in infrastructure. This represents around half of their public investment and 4 percent of their gross domestic product. About 40 percent of the Bank's lending —$34 billion over the past five years alone—has been for infrastructure.

In many respects, the report says, investment in infrastructure has paid off handsomely. Over the last 15 years, the

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C. Cornaert/World Bank

Tangled transport infrastructure.

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LENDING

Mexico Launches Cleanup Initiatives For

Rapid industrial development along Mexico's northern border with the United States has brought some unwelcome consequences for the region's fragile ecology: health threatening pollution and serious environmental degradation.

The air and water pollution stemming from the industrial boom in the frontier's special manufacturing areas—known as maquiladoras—has caused concern on both sides of the border. To protect their shared ecosystem, Mexico and the United States since 1988 have been working on a joint Border Environment Plan, which calls for extensive efforts by both countries. And everywhere in Mexico, the government has committed to an aggressive program of environmental protection, particularly water and sanitation improvements.

To help Mexico carry out its part of the northern border cleanup and solve some of its most pressing environmental needs nationwide, the World Bank on June 9 approved a package of three loans totalling $918 million.

"Mexicans, like their neighbors to the north, are acutely aware of the serious environmental problems that urgently need attention," says David de Ferranti, chief of the Bank's Mexico division. "People want action—and the Mexican Government is committed to rapid and effective progress in upgrading environmental enforcement and reversing damage. These three new projects will be a major building block in helping them do that."

The three projects target specific problem regions and key sectors as well as providing some new general regulations and enforcement measures. They are the spearhead projects of a joint program for environmental protection agreed last September between Mexico and the Bank. The program is expected to provide up to $1.8 billion in Bank loans over the next three years to help safeguard the environment in the face of Mexico's growing urbanization and industrialization.

The three Bank loans are: $368 million to help finance the Northern Border Environment Project, $350 million for improved water and sanitation services nationwide and $200 million dollars to help modernize solid-waste services in medium-sized cities.

With additional Mexican funding, the projects total $1.95 billion in environmental spending.

John Cleave/World Bank

Tackling a garbage glut.

The Northern Border Environment Project

The heavy, largely unplanned urban growth of the maquiladora industries is taking a toll on the dry, fragile border region. Water treatment and sanitation from new factories and settlements have been grossly insufficient, resulting in massive discharges of untreated wastewater and causing threats to health and economic losses. Solid-waste management is poor, so that only about 16 percent of an estimated 3,000-ton daily garbage flow is properly disposed of. Improper hazardous waste dumping is widespread, and heavy traffic over unpaved roads is causing serious air pollution.

The project will cost $762 million, including Mexico's contribution. It works on several fronts: it seeks to strengthen environmental planning, management and enforcement of local, state and federal governments; it pairs communities on both sides of the border, which share common river systems and common histories and social experiences; and recognizing that actions in different environmental sectors directly affect each another, it takes an integrative approach to air, ground and water pollution.

"When you start making progress in one area, polluters just shift to another," says Chuong Phung, the Bank's task manager for the border project. "If you get tough on solid waste, they can just pour their toxic materials down the drain and you'll have water problems. You need to address problems across different media to have an impact."

In addition to capacity-building measures for both the federal and border region governments, specific cleanups

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U.S. Border and National Environment

will include 15 investment subprojects in qualifying border cities. A $560 million line of credit will be available for water supply, sanitation, solid-waste management, air quality and urban transport. And governments will get help setting up new systems to monitor wastewater discharge and collect pollution fees. Urban transport and paving projects will cut down on air-born dust and reduce air pollution. And the solid-waste component will help cities improve garbage collection and disposal, and also develop social programs for scavengers who may be displaced by tightening procedures at local dumps. To protect biodiversity and endangered species in the desert region, the project helps establish management plans for three ecologically important areas in Mexico that abut national parks and protected areas on the U.S. side of the border.

M. Iannacci

Chuong Phung

Water Supply and Sanitation

The percentage of Mexicans connected to water and sanitation systems (about 86 and 62 respectively, in 1992) is lower than in other Latin American countries at a similar development stage. But following increased investments—including an earlier Bank loan of $300 million—and reorganization of the sector, progress has picked up in the last two years and more people are being connected to safe water and sewers.

The project—total cost $770 million—will expand water and sanitation services throughout Mexico will directly benefit about 10 million people, including helping to wipe out cholera and other diseases that strike poorer areas of the country. The project will finance new and rehabilitated wells, filtration plants, pumping stations and other facilities through qualified localutilities. It will also help federal agencies and local utilities become better at managing water supplies.

> **People want action—and the Mexican Government is committed to rapid and effective progress in upgrading environmental enforcement and reversing damage. These three new projects will be a major building block in helping them do that.**
>
> **— David de Ferranti**

Solid-Waste Management

Garbage collection, transfer and disposal is inadequate in most Mexican cities, impeded by poor management, old trucks, scavenging and a shortage of sanitary landfills.

Homes and business generate about 60,000 tons of solid waste a day, but only an estimated 70 percent is collected and only 15 percent is properly disposed of. Uncollected waste, including hazardous clinical waste, is burned, left on the streets, or dumped in open land or waterways.

The project will reduce health risks and pollution associated with poor waste management in 23 cities with a combined population of about 11 million.

The project will improve and expand collection, replace open dumps with controlled sanitary landfills and strengthen municipal, state and federal oversight of waste management.

And it will provide a broad range of social programs to help scavengers, including health care, shelter materials and basic skills training in recycling and other vocational areas. □

IBRD 25240R

World's Unmet Infrastructure Demand Remains Huge

WDR, *from page 1*

proportion of people enjoying access to safe water has gone up from 45 percent to about 70 percent; the number of telephone lines and power generation per capita have doubled.

Yet the unmet demand for services remains huge. One billion people do not have safe water; two billion do not have electricity; almost as many lack adequate sanitation. Moreover, the quality of services is often low.

The report cites three main reasons for low quality. Poor maintenance has been an almost "universal" problem in developing countries and is also widespread in industrial countries. If $12 billion had been spent on maintenance of Africa's roads over the last decade it would have saved $45 billion in reconstruction. Power systems often operate at 60 percent of capacity, while the best practice is more than 80 percent.

J.P. Morgan

Lewis T. Preston

Second, infrastructure investments too frequently provide the wrong services in the wrong places. For example, suitable sanitation and transport are unavailable to poor communities, especially in rural areas, even though consumers are willing and able to pay for them. And third, infrastructure is operated inefficiently: for example, overstaffing is common, particularly in railways, and labor-intensive maintenance is ignored.

Gregory Ingram, the leader of the Bank team which prepared the WDR, noted: "Badly designed and managed infrastructure is a major source of environmental degradation in both urban and rural areas. The poor often pay higher prices and larger shares of their income than the rich do for lower quality services."

Well-conceived infrastructure produces results. Efforts by Indonesia and Malaysia to improve rural infrastructure have contributed significantly to sharp reductions in poverty. Nor is there a necessary correlation between a country's income and the effectiveness of infrastructure. "Some developing countries—and not always the richer ones—perform at high levels," the report notes.

The key to efficient and responsive service delivery, the WDR argues, is ensuring that service providers face the right incentives.

- First, infrastructure services should be managed like a business, not a bureaucracy. Service providers need clear objectives, freedom to make decisions, and responsibility for failure. Costs should be recovered mainly from users, except where carefully defined subsidies are considered necessary.
- Second, competition in service provision should be broader. Where monopolies are hard to avoid, such as individual ports suppliers can compete to operate the service. Several suppliers can compete directly in other businesses such as telecommunications.
- Third, users should participate fully in the design and operation of infrastructure, especially where opportunities for competition may be limited as in rural road, sanitation or small-scale irrigation services.

More private financing is crucial, and the scope is considerable, the report says. Only about 7 percent of infrastructure financing in developing countries comes from the private sector. The role of government—with many variations—should be less to provide funds and more to regulate, promote fair competition, coordinate, and protect the poor and the environment.

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Gregory Ingram

Gains from reforms will vary greatly because of the wide variations in of infrastructure within and between countries. "But the rewards are potentially large across the spectrum, making the commitment to reform imperative and worthwhile," the report says.

The main gains will be from reductions in subsidies, technical improvements, and better value to users. Costs not recovered from power, water, and railways alone are estimated to total $123 billion a year, or 10 percent of all developing country government revenues.

Raising efficiency to best-practice levels would save $55 billion a year—enough to provide safe water to the one billion people who lack it within three years.□

Fiscal Burden of Underpriced Infrastructure

(US$ billion)

Sector	*Savings from better pricing*	*Source*
Power	90	Underpricing
Water	13	Underpricing
	5	Illegal connections
Railways	15	Underpriced passenger service
Total	123	

Source World Development Report 1994

LENDING

Indonesia Improves Farming And Land Management In Swamp Settlements

Over the last 70 years, Indonesian farmers have tried to reclaim part of the country's vast coastal and inland swamps to grow rice and coconuts. About a third of the development has occurred under government sponsored plans. But most of the settlements have sprung up unplanned, driven by poor people looking for cultivable land.

Such ad hoc development, particularly by spontaneous migrants, has ignored the impact of agricultural production on the fragile, frequently vital, swampland ecosystems. Some of the settlements are in environmentally sensitive areas and have harmed water quality, wildlife, adjacent forests and mangroves. And the farming itself is often poorly planned, providing only subsistence food and driving farmers into more and more areas to plant and hunt.

A $65 million World Bank loan will help the government of Indonesia reduce poverty and improve environmental practices in 20 long-established swamp settlements in Jambi, Riau and West Kalimantan, among the poorest provinces in the country.

"These people are living at or below the poverty line; their lives have to be improved," says Hendrik van Voorthuizen, the Bank's task manager for the project. "This project will provide a way for them to make a living on their land so they don't have to go beyond it and hurt other lands."

The project, covering about 55,000 hectares out of Indonesia's almost 40 million hectares of swampland, includes a range of measures to improve poor farmers' productivity and living standards. It will improve water control for better flood protection and drainage, repairing dikes and canals and building some new ones.

New agricultural support services will teach farmers better techniques and provide them with better seed, and with seedlings for new tree crops, such as hybrid coconuts. Repairing old roads and clearing clogged navigation canals will help improve transportation between farms and markets. And rainwater storage tanks and treatment plants will provide potable water for almost 3,000 households and about 55 village centers.

The project will boost coastal land management in two provinces. In Jambi, a new natural resource database will identify ecologically sensitive areas for protection, and training and new equipment will strengthen management of the Berbak National Park. In West Kalimantan, the project will help prepare an environmental profile of coastal wetlands to provide the basis for future planning.□

Dirk M. Leeuwrik/World Bank

Keeping their heads above water.

Press Conference With Russian Deputy Prime Minister Chubais

Russian Deputy Prime Minister in charge of privatization Anatoly Chubais will be in Washington to address a June 20-21 World Bank conference on "Privatization and the Emerging Private Sector in Russia."

Following the conference, Minister Chubais will hold a news conference to discuss the July 1 launch of a major new stage in the Russian Privatization Program.

The press conference will be June 21 at 3:15 p.m. in the Edward R. Murrow room of the National Press Club, 529 14th St., Washington, D.C.

For more information, contact Peter Riddleberger at (202) 473-1786 or Jan Pakulski at (202) 473-1797.

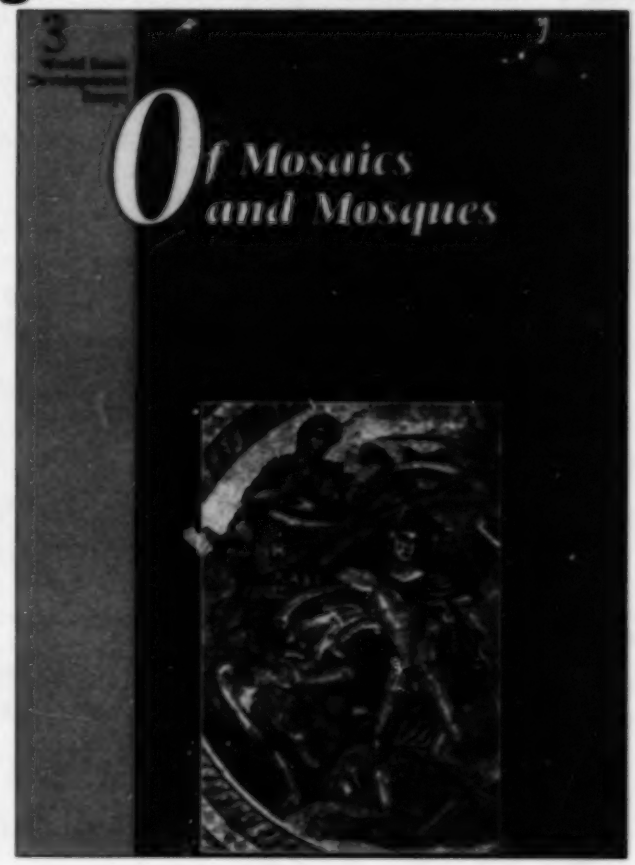
PUBLICATIONS

When Progress Can Mean Preservation: The Fight to Save Cultural Heritage

Of Mosaics and Mosques is the third in a new series of booklets from the World Bank called Development Essays. It is about how some committed archaeologists, architects, artists, politicians and officials are trying to preserve the world's cultural heritage.

The essay examines two projects, both helped by funds from the World Bank. They are the preservation of the Roman mosaics in the Cypriot town of Paphos, and of parts of the Old Walled City of Lahore in Pakistan. It is written by David Wigg, a former foreign correspondent, and now a writer-consultant at the World Bank.

"The main dangers to cultural heritage come when populations grow rapidly, creating towns and cities that burst at the seams, or when giant public works—dams, reservoirs, highways, airports, railroads, mines—move off the drawing board," Wigg writes. "Faced with relentless change, what chances are there for an exquisite house full of history, a sacred burial site, or even an entire ancient city?"



The foreword is by His Highness The Aga Khan. He writes: "It is imperative that such examples of creativity and sensitive building be conserved and allowed to reveal the culture of other times.... This publication underlines that the World Bank and many of its borrowers are among those to whom this issue is one of increasing importance."

Of Mosaics and Mosques examines efforts to balance cultural preservation with the economic development necessary to lift people out of poverty. In 1986, the World Bank adopted an official policy on cultural heritage. Normally, the Bank will not finance projects that will significantly harm cultural property, and it will help projects designed to prevent damage.

"Although conservation cannot be given absolute priority all of the time, much of the rampant destruction that goes on today is unnecessary," Wigg writes. "Development and preservation don't have to be in direct conflict: you can have both, although terrifyingly tough compromises will have to be made."□

The Development Essays Series

Each of the essays in the series looks at an aspect of development and approaches it journalistically. In a highly readable way, they tell stories about real people in real situations. The first two essays published were: *And Then Forgot To Tell Us Why*, which tells of how international medical teams are fighting a pernicious disease called river blindness in West Africa; and *The Quiet Revolutionaries*, which shows how agricultural scientists work to fight hunger.

A fourth essay, *In a Class of Their Own*, looks at literacy, and will be published later this year. It looks in particular at Indonesia's campaign to reduce female illiteracy.

Of Mosaics and Mosques is priced at $6.95. Journalists may receive free copies by writing on company letterhead to the World Bank, Office of the Publisher, Marketing Unit, Room T-8054, Washington D.C.20433, U.S.A. Fax: (202) 676-0579.

Date	Event	Sponsor	Location	Telephone
JUNE				
16-17	Oil and Gas Workshop	Import-Export Bank of Japan/ World Bank	Tokyo	(202)473-1795*
17-18	Summit on Aids	World Health Organization	Paris	(41-22)7912-111
21-22	Fourteenth Meeting of the Executive Board	Common Fund for the Commodities	Amsterdam	(20)6646-6409
23-24	Aral Sea Donors' Meeting	World Bank	Paris	(33-1)4069-3016
27-28	Macedonia Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
29-July 1	India Development Forum	World Bank	Paris	(33-1)4069-3016
JULY				
7-8	Indonesia Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
11	Uzbekistan Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
11-12	West Bank and Gaza Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
18-19	Uganda Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
21-22	Philippines Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
21-22	50th Anniversary Conference of the Bretton Woods Institutions	Bretton Woods Committee	Washington	(202)331-1616*
AUGUST				
22-26	Environment and Quality of Life in Central Europe: Problems of Transition	Int'l Geographic Union Regional Conference	Prague	(42-2) 203608

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk (*) indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

CHAD With help from a credit of SDR 13.1 million ($18.5 million) approved by the International Development Agency, Chad plans to improve its health system and to implement a safe motherhood campaign. The project will rehabilitate and build new health clinics, train health personnel, strengthen management at health agencies and streamline pharmaceutical operations.

INDIA Less than a third of India's seaborne trade enters or leaves its ports packed in cargo containers, which allow for more efficient transport to and from inland processing and distribution centers. A $94 million World Bank loan will boost India's cargo containerization by helping the country streamline customs restrictions on containers, strengthening the container corporation and providing flatcars and railway facilities.

INDONESIA Indonesia, seeking to enhance the quality of graduate education across the country, will use a $58.9 million Bank loan to expand funding and improve graduate planning and management. The project will finance competitive grants to support research, better facilities, academic journals and fellowships for master's and doctoral students.

MALAWI Malawi seeks to streamline its civil service and clear bottlenecks to bureaucratic efficiency with help from an International Development Agency credit of SDR 16 million ($22.6 million). The project will help the government better manage relations with parastatals and boost the work of the Malawi Institute of Management in providing consulting and training to the civil service, parastatals and the private sector.

Rebuilding After The Cyclones

World Bank

Within two weeks last January and February, Madagascar was slammed by back-to-back cyclones packing winds up to 250 km/h and dumping 2.5 months worth of heavy rainfall on parts of the island in a matter of days. The storms, Daisy and Geralda, killed a reported 60 people and left more than 60,000 homeless around the capital alone and wrecked critical roads and railways. In coordination with other donor contributions, an IDA credit of SDR 9.3 million ($13.1 million) approved June 9 will help Madagascar repair the damage and strengthen measures to minimize future damage.

WORLD BANK NEWS

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WORLD BANK NEWS

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PUBLICATIONS

Bank Steps Up Work On Governance For Development

Lending and research by the World Bank to encourage good government are increasing and have led the institution into new fields of work over the past two years, says a Bank report, *Governance: The World Bank Experience*, released today.

Nevertheless, good government is so important to development that the issue warrants more systematic treatment. "The Bank is stepping up its work on good government because we realize that it is critical to sustainable development," said the Bank's Mike Stevens, the report's main author.

"The exercise of government power may vary from country to country," said Stevens, "but where governance is poor, development does not take place, whatever the level of external assistance."

For the Bank, governance is how power is exercised in the management of a country's economic and social re-

See GOVERNANCE, *page 3*

LENDING

"Farmer-Friendly" Programs Boost Russian Agriculture

Private farming is taking off in Russia. Since 1991, when large state-owned and collective farms accounted for three quarters of Russia's agriculture, more than 250,000 private farms have sprung up, and the number is growing.

But even as economic and land reforms are making it possible for Russian farmers to own and run farms, much remains to be done to establish modern, market-based agriculture across the country. After decades of collective, large-scale agriculture directed from Moscow, few Russians have the expertise needed—in business as well as agronomy—to run a profitable farm.

"They were all workers, not farmers," says Mohinder Mudahar, a principal economist in the Bank's Russian department. "Now they have to know everything from crop husbandry, farm management and finance to sales and marketing."

Two projects approved this week by the World Bank will help Russia develop agriculture at the farm level,

See AGRICULTURE, *page 2*

AP/Wide World Photos

Private farming is picking up.

New capital will allow Russian banks to make longer-term loans. 3

A Bank project will help Croatia begin to rebuild. 4

Two projects provide Indonesia with more power and better water. 5

Caribbean meeting points the way to reform. 6

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Agriculture Projects Target Individual Farmers and Encourage Private Enterprises

AGRICULTURE, *from page 1*

even as wider agricultural reforms continue. One, partly financed by a $240 million loan, is a broad package of basic services to help individual farmers acquire the skills and materials they need to grow and sell their produce. The other, an $80 million loan for further land reform, will strengthen Russia's system of land registration for farms and other private property.

M. Ianacci

Mahinder Mudahar

"We're laying the foundation for private agriculture based on market principles," says Mudahar. "These are revolutionary ideas in Russia, but they are the essential building blocks of a more efficient agricultural system for the whole country."

In spite of Russia's recent strides in agricultural reform—with Bank assistance, the government has liberalized prices and reduced subsidies—economic losses in the farm sector remain high and crop yields remain low.

Among other things, farmers are hampered by poor quality seeds, lack of extension support and lack of market infrastructure. Every year, for example, about half the potato crop rots, either unharvested or because there are not enough cold storage facilities.

And government agriculture has not encouraged farmers to work for higher efficiency. "In the centralized system, everything belongs to the state," says Mudahar. "If there is a loss, it's the state's loss. When it's your own produce, you take better care of it."

To reduce economic losses and boost productivity, the new projects target individual farmers and private enterprise. Land reform will give them control over their own farms and the agricultural support project will provide them with crucial pricing data, advice on all aspects of private farming, new wholesale markets, better facilities and superior seed.

"These are all farmer-friendly ideas," says Mudahar. "We are telling the farmer: 'You can have title to your land; you can have superior seed; you can have important information on technology and prices, and you can have markets to sell your produce in a competitive environment.'"

Farm Support

Specifically, the agricultural support project has three main components: market development, farm information and advisory services and commercial seed industry development.

Markets. The project will help nurture Russia's chaotic agricultural commodities and supplies market by creating a nationwide market information system. Farmers, who must make planting, harvesting and market decisions based on rapidly changing prices and costs, will be able to tap the system for up-to-date information on about 50 commodities and materials.

And pilot projects in selected areas will set up fruit and vegetable mini-wholesale markets and cold storage and other facilities, all owned and operated by private enterprises.

Information. The project will establish centers in participating regions to act as farm information and advice clearing-houses. Farmers will be able to learn about business as well as agronomy, including facts on land reform laws, privatization and credit, how to start new businesses, accounting, storage and region-specific information on farm techniques, weather and environmental conditions.

Additionally, the information will be available through computer networks, on video, at agricultural fairs, through mass media and at special training centers.

Seed. Russia's poor quality seed is one of the main reasons crop yields there are generally lower than in other similar areas of Europe. The project's seed component seeks to establish a commercially viable private seed industry. Pilot investments will help companies build 10 plants to properly produce, harvest, dry, clean, grade, treat and package high-quality hybrid corn and sunflower seeds. The project will also strengthen, through technical assistance and training, agencies that test, register, certify and regulate seeds.

Land Reform

Russia's reforms have already established the right to own land privately. The huge state and collective farms are being restructured and private family farms are multiplying. With a number of properties changing hands for the first time, the country needs to establish the legal structure for the orderly buying, selling and mortgaging of private land.

The land reform project will help Russia upgrade its property mapping, standardize registration and titling procedures, boost the development of land markets and, through training and technical assistance, strengthen all the institutions charged with administering the country's growing land registry.

Says Mudahar: "We're putting in place a system that will be able to let farmers and household plot owners know: 'This is your property. These are your boundaries. You can buy it. You can sell it. You can use it to get a loan from the bank'."□

Good Governance Means Good Development

GOVERNANCE, *from page 1*

sources for development. The Bank's Articles of Agreement explicitly prohibit it from interfering in a country's internal political affairs and require the Bank to take only economic considerations into account in its decisions.

"Governance is the foundation on which sustainable development is constructed," Stevens observed. "The building blocks are a well-functioning public sector, transparency, accountability, and the rule of law. As donors, we need to understand how this foundation can be strengthened, to assist countries in achieving sustainable development."

In the private sector, the report says, the need is that the legal and regulatory framework be understood and applied even-handedly, and that government be reasonably predictable. In the public sector, the need is for sound management built on accountability and transparency.

Improving legislative and judicial accountability (for example through the Bank's Second Public Sector Management Project in Chile and a judicial reform project in Venezuela), deepening its understanding of corruption, and exploring new forms of participation which bolster ownership of projects and programs by borrowers are among the governance areas the Bank has been exploring in recent years. Many of these topics are raised in donor Consultative Groups, which the Bank chairs.

In addition, the Bank's work on governance has led to new ways of preparing projects and new topics for economic and sector work and for research. Governance concerns have also influenced the regular economic and project work in the public and private sectors. Within the Bank, new procedures have been introduced to improve project preparation and portfolio management.

Corruption is one of the areas the Bank is looking at. The report outlines a strategy for combatting corruption by reforming trade and tax regimes, privatization, civil service reform, improving public sector procurement, and modernizing public sector accounting.

Prudent military spending is part of good government as well because it can reduce funds for social and other development priorities. The Bank has raised this issue where high military spending is crowding out development expenditures.

In some countries, such as Argentina, the report notes, the Bank has drawn up options for bringing military expenditures more into balance with other priorities. The Bank is helping Uganda demobilize soldiers and reintegrate them into civil society.

Human rights are another aspect of governance which can profoundly influence development. Although the Bank's charter is non-political, the Bank contributes to the advancement of human rights through its promotion of economic and social rights for all people, embodied in its poverty reduction strategy and in governance policies.

"Focusing directly on the issue of improving the quality of government is relatively new to the Bank, and we are still on a learning curve. While the Bank was created 50 years ago at the end of World War II, the issues the report addresses are especially relevant in today's post-Cold War era," Stevens said.□

For more information, contact Klas Bergman at 202 473 3798.

LENDING

New Capital For Russian Banks To Stretch Credit Terms

In Russia, commercial banks are springing up by the thousand to serve the growing private sector, and the government —with World Bank help—has already launched a program to make sure they are well managed and well regulated. But so far, the banks can make only short-term loans, not the medium- and long-term loans private businesses need to expand.

Now, a second World Bank loan to Russia's financial sector will provide some of the capital banks need to begin crucial term lending. The $200 million loan, approved June 21, along with $100 million from the European Bank for Reconstruction and Development, will be available to qualified commercial banks in Russia, who will in turn lend it to new, and newly privatized, enterprises.

With longer-term financing, businesses can afford to restructure or make substantial improvements in their equipment and facilities, investments that may take months—even years—to pay off.

"Right now the banks are lending at very short terms, rarely beyond three months," says Juergen Franz, a principal financial officer in the Bank's Russian department and task manager for the project. "Enterprises have told us they can't obtain financing for high-return investments."

Under the program, loans will need a maturity of at least one year. And while Juergen expects most of them to be relatively small, the program will give banks and businesses alike valuable experience in long-term lending and borrowing. Enterprise applying for the loans will also have to prepare and submit a comprehensive business plan, which will help banks evaluate the loan applications and entrepreneurs to think more strategically about their businesses.

The program will work through a core group of 20 private banks identified by the first World Bank project as the strongest in Russia's fledgling financial sector. Under that project, the 20 banks—located in nine cities across the country—are being paired with international banks in the West to sharpen their lending and accounting skills.□

LENDING

Bank Moves To Help Croatia Rebuild Its War-Shattered Infrastructure

In Croatia, shattered buildings, roads and bridges mark the passage of the war that two years ago raged along the whole sweep of the crescent-shaped country. By the time relative peace was restored in 1992, Croatians faced empty miles in which no building was left standing, and even fields were ruined. Thirty-five settlements were almost completely destroyed and 34 more severely damaged. In all, almost 600 towns and villages were affected.

Much of the country's infrastructure was in ruins. Housing and agriculture suffered the most devastating damage. Hotels, once the backbone of the crucial tourism industry, were either destroyed or overwhelmed with refugees. Telecommunication and energy lines were severed. Virtually every bridge over the Sava River was blown up. If vehicles and industrial machinery were movable, they disappeared; if not, they were destroyed.

This is the backdrop against which Croatia's economic transition must take place as it begins to tackle the economic problems from the previous system of social ownership.

"The damage is enormous and it stretches across all sectors," says Ann Elwan, the Bank's country officer for Croatia. "In order to restore the production levels of the economy, Croatia needs to repair or replace war-damaged infrastructure, industrial and agricultural assets, and housing. All of this will need to be done without jeopardizing the sustainability of the stabilization already achieved, and while making substantial progress in economic restructuring."

To help Croatia meet the twin challenges of reconstruction and transition to a market economy, the World Bank on June 21 approved a $128 million emergency assistance loan to help finance the country's most urgent infrastructure priorities. It will also help the government's efforts to repair housing, schools and health centers.

Instead of rebuilding old industries, which were in any case slated for major restructuring, the project will concentrate on reconstructing other sectors—like agriculture and housing—and on infrastructure. And from these repairs, new industries will develop.

"A working infrastructure is a prerequisite for functioning industry," says Elwan. "When we put back in place power, roads and railways, all of that will lay the groundwork for future growth."

World Bank

Roads to ruins.

Specific projects under the reconstruction loan

Transport. An urgent priority in rebuilding Croatia's highway system is replacing missing and destroyed maintenance equipment and spare parts. The project allocates $11.7 million for trucks, tractors, salt machines and other equipment. It will provide almost $10 million to refurbish railroad rolling stock and replace track repair equipment.

Power. During the war, thousands of kilometers of electric lines were damaged, transmission towers toppled and power stations crippled. The project will reconstruct telecommunications lines, electric transmission systems, and the power distribution system around Dubrovnik. The loan will finance $16.6 million of the repairs.

Water Works and Flood Control. Basic needs have been met by repairs—often temporary—on war-damaged water systems, but many are operating at reduced capacity. The project will rehabilitate about 20 water and sewer systems at a cost of $34.7 million, and repair flood control structures in the Sava River basin for $5.5 million.

Community Reconstruction. Repair of housing, 20 percent of which was damaged in war areas, is a government priority. Some communities also need new social infrastructure. The project allocates $40 million for repair loans for up to 8,000 households, and to rebuild schools, health clinics and other community services.

Agriculture. Much of the war was fought in rural areas. Fields, farm buildings and equipment were destroyed, and livestock was killed or lost. To rebuild the national milk and meat herds, the project will provide $6.8 million in breeding stock and services. Another $12.4 million will help replace lost agricultural equipment. □

Indonesia Delivers Power To Outer Islands and Better Water Management To Java

Electrification in Indonesia has grown fast in recent years, driven by the country's rapid economic growth. More and more households and businesses are plugging into Indonesia's expanding networks of power plants and transmission lines, especially on Java, the main island.

But the situation is different on the thousands of Outer Islands that make up 95 percent of the country's territory and are home to 40 percent of its people. There, instead of efficient grid systems, a patchwork of diesel generators and low-voltage lines provide electricity to only 27 percent of households.

"It's very inefficient," says Mihir Mitra, a power engineer in the Bank's East Asia region, "a proliferation of all vintages of diesel generators. They're all difficult to repair and spare parts are hard to find."

A $260 million World Bank loan approved June 21 will help improve the power supply on the Outer Islands, and also advance the government's power reform effort, which will eventually decentralize and privatize part of the national power utility.

The project will help finance power plants and transmission facilities of the larger Outer Islands: a hydroelectric plant on Sumatera, and a thermal plant on Kalimantan. And it will provide two barge-mounted power plants—one 10 MW and one 30 MW—to fill electricity gaps among islands.

"They will be towed wherever there is a power shortage and hooked up," Mitra says. "When permanent power stations are built, they will be moved to other places where there are shortages."

The policy component of the project seeks to boost the presence of the private sector in Indonesian power to make it less centralized and more efficient. The plan will explore ways to privatize some parts of the national system, such as generation and distribution, and improve the government's ability to regulate commercial operations in a transparent way.

F. Botte/FAO

Well-managed water.

Irrigation and Water Improvement on Java

The Bank also this week approved a $165 million loan to improve water resource management on Java.

Java contains 60 percent of Indonesia's population, most of its industry and over half its irrigated agriculture, but only 8 percent of its land and water resources. Many of the river basins face critical shortages in the dry season, and pollution further cuts the amount of usable water. The project would help prepare comprehensive water management plans in three river basins, and strengthen water management in five others. And it would rehabilitate and expand irrigation systems, provide for future maintenance and turn some of them over to private user groups.□

Mozambique Pushes Ahead With Recovery Plans

With the signing of a peace accord in October 1992, Mozambique emerged from 17 years of civil war as the poorest country in the world. Half its population was displaced, its economic and social infrastructure was in ruins and drought was widespread. But a year and a half later, things may be looking up for the Southern African country.

The armies are demobilizing. Multiparty elections are scheduled for this fall. Travel is safe again through rural areas, and some of the 7 million people forced from their homes are returning to plant their fields. The result: a welcome 19 percent boost in national income last year.

"Everything is pointing the right way for things to go well," says Simon Bell, senior financial economist in the Bank's Southern Africa region. "They're moving toward democracy; they're moving

See MOZAMBIQUE, *page 6*

MEETINGS

No Country Is An Island: New Policies Take Caribbean Into Global Market Place

To Yoshiaki Abe, a director in the World Bank's Latin American region, the Caribbean is much more than a desirable destination for tourists. "People forget," he says, "that the Caribbean is a region of vibrant, growing economies with a potential market of about 20 million people and a combined GNP of $27 billion. That is not an insignificant market."

The Caribbean economies are small, open, and highly vulnerable to changes in the external environment. The oil shocks of the 1970s and 1980s, for example, had a severe impact on the region's economy.

So regional governments need to be ready to adjust quickly to such changes. In the 1980s, the countries of the Eastern Caribbean and Belize managed to post growth rates as high as six percent.

But the recent meeting of the Caribbean Group for Cooperation in Economic Development at the World Bank agreed that new challenges have emerged. The North American Free Trade Agreement, the Uruguay Round, and the formation of the single European market have begun to erode preferential trading agreements long enjoyed with the U.S., Canada, and the European Community, under the Lome Conventions.

In the view of Christian Delvoie, Chief of the Bank's Caribbean Division, the response of Caribbean governments must be "greater flexibility in the management of their economies and a willingness to look beyond their traditional exports to find new export niches." He points out, for example, that all ticketing for American Airlines is now done in Barbados. Because of its well-educated labor force and proximity to the large North American market, the Caribbean is well placed, he thinks, to take advantage of the opportunities that will become increasingly available in other service industries, such as health care, education, finance, software programming, and information.

Change is already underway, according to Delvoie. Caribbean countries are removing state monopolies, allowing the market to determine interest rates, removing price controls and strengthening the institutional and regulatory frameworks. These policy initiatives are steps in the right direction. However, continued efforts are needed by Caribbean governments to assure private investors of the permanence and credibility of these policies, while putting in place regulatory and institutional frameworks that minimize the costs and risks for private capital.

With increasing private leadership in the productive sectors, redefining the role of the private sector is important. The public sector must focus away from activities competitive with the private sector, towards complementary activities, such as supplying infrastructure. □

Mozambique Emerging From Ashes Of Civil War And Drought

MOZAMBIQUE, *from page 5*

toward demobilization; they're moving toward resettlement. Everyone is cautiously optimistic."

Hope is tempered, Bell says, because Mozambique's problems are large, and the collapsed peace in Angola shows how difficult rebuilding from civil war can be. But Mozambique enjoys an abundance of resources: tourism, once a major earner, should flourish in the peace; the country's ports make it an attractive transport corridor for several inland neighbors; and coal and gas reserves along with cheap hydropower make Mozambique a potential energy exporter. And since 1987, the government has pushed a broad, gradual restructuring of its once centrally planned economy.

To help Mozambique expand its fledgling recovery, the International Development Association this week approved a recovery credit of SDR 141.7 million ($200 million). Under the program, the government will quicken reforms in four areas: budget and aid management, monetary policy, commercial banking and privatization.

The country's new stability means the recovery program is no longer overshadowed by an emergency, and can be extended to more areas.

"The budget must be able to provide services all over the country, not just the major cities," Bell says. "The government will plan country-wide programs in health, education and agriculture."

New monetary and financial sector policies will nurture the growing number of foreign investors turning toward Mozambique. Two Portuguese banks have set up in the country, and the government is reviewing more than $500 million in foreign investment applications, many from South Africa.

Also under the recovery credit, Mozambique will broaden its privatization program—which has already converted more than 250 small- and medium-sized state enterprises to private companies—to include some larger industries. The once-lucrative cashew nut processing plants are likely candidates, as are tea and sugar estates and a cement factory.

"Overall, this project is trying to build and support the economic framework Mozambique needs to take full advantage of its resources and the good political developments," Bell says. □

Date	Event	Sponsor	Location	Telephone
JUNE				
23-24	Aral Sea Donors' Meeting	World Bank	Paris	(33-1)4069-3016
23-July 4	Conference on "Cities and Sustainable Development"	Global Forum '94	Manchester, U.K.	(44-61)234-3741
27-28	Former Yugoslav Republic of Macedonia Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
29-July 1	India Development Forum	World Bank	Paris	(33-1)4069-3016
JULY				
7-8	Indonesia Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
8-9	G-7 Summit		Naples, Italy	Contact Finance Ministries, G-7 Countries
11	Uzbekistan Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
11-12	West Bank and Gaza Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
12-14	GEF Council Meeting	GEF	Washington	(202)473-5102*
18-19	Uganda Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
21-22	Philippines Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
21-22	50th Anniversary Conference of the Bretton Woods Institutions	US State Department	Washington	(202)473-1789*
AUGUST				
22-26	Environment and Quality of Life in Central Europe: Problems	Int'l Geographic Union Regional Conference	Prague	(42-2) 203608

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk (*) indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

CONSULTATIVE MEETINGS

Donors To Back Guatemalan Peace Process

With peace talks progressing in Guatemala, donor countries and international organizations, meeting informally last week at the Bank's Paris office, agreed to look for ways to help the country pay for the reconstruction costs of making peace. In a program to be jointly managed by the Bank, the United Nations Development Programme and the Inter-American Development Bank, donors will work with the sides involved to help in a post-accord period and beyond.□

Recovery Programs Approved For Cameroon, Gabon And Nicaragua

The Bank this week approved recovery programs to support economic reforms in three countries: a $30 million World Bank loan to Gabon, a credit to Cameroon of SDR 53.1 million ($75 million) from the International Development Association (IDA), and an IDA credit of SDR 42.5 million ($60 million) to Nicaragua.

Recovery credits and loans provide countries with the foreign exchange they need to meet the costs of agreed economic recovery measures.

Nicaragua also got a boost from international donors when its Consultative Group praised the country for keeping its reform program on track during the last year despite difficult economic and political conditions. Donors, meeting in Paris on June 16-17, indicated they would close Nicaragua's funding gap for 1994, estimated at $150 million.

COMOROS The Comoros, one of the African nations that recently slashed the value of their CFA franc against the French franc to spur economic reform, will use a credit of SDR 3.7 million ($5.1 million) from the International Development Association (IDA) to foster small business growth on its three islands. The project will provide credit and training to entrepreneurs and help reform business laws.

INDIA An IDA credit of SDR 62.7 million ($88.6 million) will boost India's family welfare program in three states: Assam, Rajasthan and Karnataka. The credit will provide new and expanded family planning and maternal and child health services through, among other things, new and restored clinics, training, drugs and education campaigns.

JAMAICA Jamaica will try to improve its inefficient tax collection and administration system with a World Bank loan of $13.2 million. The loan will help Jamaica to do the following: register more taxpayers and reduce deductions; strengthen management, auditing and collection capacity in tax departments; and make the tax code more equitable to increase voluntary payments.

MOZAMBIQUE Mozambique will use an IDA credit of SDR 21.3 million ($30 million) to begin developing the rich Pande gas field for natural gas production. Eventually, the field will provide gas for export and urban consumption. The project will drill three preliminary wells and help equip and assist the government gas agency. A second phase of the preparation will be carried out with commercial partners expected to join the project.

WORLD BANK NEWS

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